

## Message Text

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INFO OCT-01 NEA-10 ISO-00 AGR-05 AID-05 CEA-01 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02

STR-04 TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 SS-15

NSC-05 L-03 H-02 PA-01 PRS-01 USIA-06 EURE-00 /098 W

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P 071616Z AUG 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC PRIORITY 9434

INFO ALL EC CAPITALS 995

AMEMBASSY CAIRO PRIORITY

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PASS AGRICULTURE FOR ASST. SECRETARY BELL AND DAVID HUME

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: EC/EGYPT COMMODITY SUPPLY AGREEMENT

REF: (A) EC BRUSSELS 06979 (B) EC BRUSSELS 07018 (C) CAIRO 7738

1. BEGIN SUMMARY: SALES UNDER THE PROPOSED EC-EGYPT COMMODITY SUPPLY AGREEMENT WOULD BE MADE AT WORLD MARKET PRICES WITHIN A PRICE RANGE. EGYPT IS EXPECTED TO PRESS FOR ADDITIONAL SUPPLIES, PARTICULARLY GRAINS AS FOOD AID, AND FOR FINANCIAL AND TECHNICAL COOPERATION AGREEMENTS FOR DEVELOPING AGRICULTURAL PRODUCTION. THE PROPOSED AGREEMENT WAS NEGOTIATED WITHOUT A COUNCIL MANDATE. THE COMMISSION NOW HAS ASKED THE COUNCIL TO APPROVE IT EX POST FACTO AT THE SEPTEMBER 8TH SESSION OF THE AGRICULTURAL MINISTERS COUNCIL. THE COUNCIL'S DELIBERATIONS MAY WELL RAISE QUESTIONS REGARDING THE FUNDAMENTAL ROLE OF THE CAP, ON WHICH A CONSENSUS IS LACKING IN THE COMMISSION AND IN THE MEMBER STATES. END SUMMARY.

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2. WE OBTAINED FROM A SOURCE IN SOAMES'

CABINET A COPY OF THE COMMISSION DOCUMENTS PERTAINING TO THE PROPOSED EC-EGYPT COMMODITY SUPPLY AGREEMENT. THEY ARE A DRAFT NEGOTIATING MANDATE AND DRAFT COUNCIL DIRECTIVES, REFLECTING THE RABOT AND WIJNMAALEN NEGOTIATIONS IN CAIRO JULY 28-30 (REF. A). THE DOCUMENTS SUPERSEDE THE DECLARATION OF INTENT THAT RESULTED FROM THE JULY 16-19 TALKS IN BRUSSELS AND REFLECT CHANGES IMPOSED BY THE COMMISSION (REF. B). THE DRAFT DOCUMENTS ARE TO BE DISCUSSED AND, HOPEFULLY, APPROVED AT THE SEPTEMBER 8TH MEETING OF THE AGRICULTURE MINISTER'S COUNCIL. IT IS POSSIBLE THAT THE FOREIGN MINISTERS MAY ALSO WISH TO PASS ON THE DRAFT MANDATE. THE DATA IN THE DOCUMENTS SUBSTANTIATE THOSE TRANSMITTED IN REFTELS A AND C WITH THE FOLLOWING CHANGES OR ADDITIONS.

(A) GRAINS: THE ONE MILLION TONS OF WHEAT OR REPEAT OR WHEAT FLOUR IS TO BE SUPPLIED DURING THE 1975/76 MARKETING YEAR BEGINNING AUGUST 1, 1975. IT IS ENVISIONED THAT TWO-THIRDS OF THE ONE MILLION TONS ARE TO BE DELIVERED BY MARCH 1, 1976. IN ANY EVENT, THE GOVERNMENT OF EGYPT (GOE) WOULD UNDERTAKE TO ACCEPT A MINIMUM 50 PERCENT OF THE TWO-THIRDS DURING THE AUGUST 1, 1975 - MARCH 1, 1976 PERIOD, THE REMAINDER TO BE IMPORTED DURING THE SIX MONTHS FOLLOWING FEBRUARY 1, 1976. WHEAT AND WHEAT FLOUR SALES PRICES (ACCORDING TO OUR SOURCE IN SOAMES' CABINET) WOULD BE WORLD MARKET PRICES WITHIN A PRICE BRACKET OF US \$120-175 PER METRIC TON. (BASE INTERVENTION PRICE IS \$161.62 AT 0.779180 U.A. EQUALS \$100). WITH THE EC INTERVENTION PRICE ABOUT \$27.50 ABOVE THE WORLD MARKET PRICE FOR SOFT RED WINTER WHEAT (SRW) OF ABOUT \$134, AN EXPORT SUBSIDY OF \$27.50 WOULD APPEAR TO BE REQUIRED. AND IF THE WORLD MARKET PRICE FOR SRW WERE TO EXCEED \$175, FOR EXAMPLE BY \$5.00, THE COMMISSION WOULD HAVE TWO COURSES OF ACTION AVAILABLE TO IT: EITHER EXEMPT COMMUNITY EXPORTS BY THE PRIVATE TRADE FROM THE EXPORT LEVY OF \$5.00 THAT WOULD BE REQUIRED IN SUCH A PRICE SITUATION BY REGULATIONS, OR SUPPLY THE WHEAT ITSELF FROM INTERVENTION STOCKS AT THE MAXIMUM PRICE OF \$175. IN THIS LATTER CASE, SALES WOULD BE BELOW WORLD MARKET PRICES AND, IN THIS SENSE, WOULD BE CONCESSIONAL.

(B) WHITE SUGAR: THE THREE-YEAR SUPPLY PERIOD FOR SUGAR LIMITED OFFICIAL USE

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BEGINS JULY 1, 1975. DELIVERY PERIOD FOR THE FIRST YEAR WOULD BEGIN OCTOBER 1, 1975. SALES PRICES WOULD FALL WITHIN A BRACKET "COMPRISING" THE EC INTERVENTION AND TARGET PRICES, WHICH, FOR THE CURRENT MARKETING YEAR, THE DOCUMENTS STATE ARE 320.5 AND 336.5 U.A. PER METRIC TON FOB BASIS. (NOTE: OFFICIAL WHITE SUGAR INTERVENTION AND TARGET PRICES ARE 304.52 AND 320.62 U.A. PER M.T., RESPECTIVELY. OUR SOURCE CANNOT FOR THE MOMENT EXPLAIN THIS APPARENT DISCREPANCY BUT WILL

ATTEMPT TO DO SO AT A LATER DATE.)

(C) BEEF: EGYPTIAN GOVERNMENT WOULD UNDERTAKE TO IMPORT DURING THE 1975/76 MARKETING YEAR BEGINNING AUGUST 1, 1975, A TOTAL OF APPROXIMATELY 11,000 METRIC TONS OF FROZEN BEEF AND VEAL AND CORNED BEEF, OF WHICH ABOUT 1,000 TONS OF CORNED BEEF. FROZEN BEEF AND VEAL SALES PRICES WOULD FALL WITHIN A PRICE BRACKET OF US \$800 - 850 PER METRIC TON, WHICH THE COMMISSION BELIEVES APPROXIMATES WORLD MARKET PRICES, THE BEEF WOULD COME FROM INTERVENTION STOCKS.

(D) DAIRY PRODUCTS: THE EC AND THE GOE WOULD AGREE TO CONCLUDE LONG-TERM OUTLINE AGREEMENTS FOR 10,000 TONS OF NONFAT DRY MILK (NFD) FOR HUMAN CONSUMPTION, 10,000 TONS BUTTER AND BUTTER OIL AND 3,000 TONS OF CHEDDAR, GOUDA AND EDAM TYPE CHEESES. DELIVERY OF NFD WOULD BE SPREAD OVER TWO YEARS AT FOB PRICES WITHIN A RANGE OF US \$630-650 PER METRIC TON. DELIVERY OF CHEESE WOULD BE OVER TWO YEARS AT OFFER PRICES WITHIN A RANGE OF US \$1,000 - 1,150 PER M.T. THE COMMISSION BELIEVES THESE PRICES FOR NFD AND CHEESE APPROXIMATE WORLD MARKET PRICES.

(E) ANIMAL FEED: THE EC WOULD UNDERTAKE FOR THE FIRST YEAR OF THE AGREEMENT TO DELIVER AT LEAST 5,000 TONS OF MILK PRODUCT SUBSTITUTES FOR ANIMAL FEED USE HAVING AN APPROXIMATE COMPOSITION OF 50 PERCENT NFD, 15 PERCENT POWDERED WHEY, 20 PERCENT VEGETABLE OILS AND FATS, PLUS MINERALS AND PROTEINS. NO PRICE PROVISIONS ARE MENTIONED IN THE DRAFT DOCUMENTS.

(F) FOOD AID: THE COMMISSION RECOMMENDS THAT THE COMMUNITY EXAMINE "WITH UTMOST CARE" GOE'S ADDITIONAL REQUESTS FOR INCREASES IN COMMUNITY FOOD AID TO EGYPT, PARTICULARLY IN GRAINS. TEN THOUSAND TONS OF NFD WOULD BE SUPPLIED AT A RATE OF LIMITED OFFICIAL USE

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UP TO 1,000 TONS MONTHLY FOR A ONE-YEAR SOCIAL PROGRAM TO BE ESTABLISHED BY BOTH PARTIES. AFTER PURCHASE BY THE GOE, THE NFD WOULD REACH EGYPT VIA HUMANITARIAN ORGANIZATIONS DESIGNATED BY THE GOE.

3. THE COMMISSION WAS UNABLE TO MEET ALL OF THE EGYPTIAN REQUESTS, IN PARTICULAR TO UNDERTAKE TO SUPPLY ONE MILLION TONS OF WHEAT ANNUALLY FOR THREE YEARS, BECAUSE OF SUPPLY, CONSUMPTION AND EXPORT UNCERTAINTIES. BUT THE COMMISSION EXPECTS THE GOE TO CONTINUE TO PRESS FOR ADDITIONAL SUPPLIES OF COMMODITIES, PARTICULARLY GRAINS, IN THE FORM OF FOOD AID, AND IT RECOMMENDS THAT THE COUNCIL ASSURE THE GOE THAT ANY SUCH ADDITIONAL REQUESTS WILL BE EXAMINED "WITH ALL DUE CARE."

4. THE COMMISSION ALSO EXPECTS THE GOE TO PUSH FOR FINANCIAL

AND TECHNIAL COOPERATION FOR DEVELOPING EGYPT'S AGRICULTURAL AND FISHERIES PRODUCTION. THE COMMISSION BELIEVES IT WILL BE POSSIBLE FOR THE COMMUNITY TO AGREE TO EXAMINE SUCH COOPERATION "WITHIN THE FRAMEWORK OF THE PROJECTED ECONOMIC AND TRADE COOPERATION AGREEMENT BETWEEN THE EC AND EGYPT, EXPOLRING IN PARTICULAR THE POSSIBILITY OF SETTING UP JOINT VENTURES."

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5. OUR SOURCE EXPLAINED THAT THE COMMISSION NEGOTIATED THIS FRAMEWORK AGREEMENT WITH THE GOE WITHOUT FIRST HAVING OBTAINED A MANDATE FROM THE COUNCIL. IN EFFECT, THEN, THE COMMISSION HAS ASKED THE COUNCIL IN THE DOCUMENTS DESCRIBED ABOVE, TO APPROVE EX POST FACTO BOTH THE AGREEMENT AND A DRAFT NEGOTIATING MANDATE. THE LATTER WOULD INSURE LEGAL CONFORMITY WITH THE ROME TREATY. BUT THE MEMBER STATES ARE EXPECTED AT LEAST TO BE MIFFED AT BEING ASKED TO APPROVE A NEGOTIATION FOR WHICH THEY HAD NOT PREVIOUSLY APPROVED A MANDATE. THEREFORE, LARDINOIS TOOK PAINS TO ANNOUNCE AT HIS AUGUST 1 NOON PRESS CONFERENCE (REFTEL A) THAT THE MEMBER STATES HAD BEEN INFORMED BY THE COMMISSION OF THE DETAILS OF THE PROPOSED AGREEMENT. OUR COMMISSION SOURCE SAID THAT, IN SPITE OF WHAT LARDINOIS SAID, THE MEMBER STATES AS OF AUGUST 6 STILL HAD NOT RECEIVED ANY WORD OFFICIALLY FROM THE COMMISSION DUE TO TRANSMITTAL DIFFICULTIRES, AND HE STRESSED THAT WE THERE-

FORE SHOULD NOT REVEAL OUR POSSESSION OF THE DOCUMENTS.

6. IN LARDINOIS' VIEW, THE ADVANTAGES OF THIS AGREEMENT WITH EGYPT ARE TWO-FOLD, FIRST, IT HELPS MOVE AGRICULTURAL COMMODITIES WHICH ARE IN BURDENSOME SUPPLY (REFTEL A). SECONDLY, IT HAS DISTINCT PERSONAL, POLITICAL ADVANTAGES IN COUNTERACTING CRITICISM, LIMITED OFFICIAL USE

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PARTICULARLY FROM THE FRENCH, FOR HIS ALLEGED MISMANAGEMENT OF SURPLUS EC WHEAT DURING AND AFTER THE THREATENED SHORTAGE OF U.S. CORN A FEW MONTHS AGO. THERE ARE SOME IN THE COMMISSION WHO, MOREOVER, SEE SUCH AN AGREEMENT AS SOLIDIFYING A TRADE RELATIONSHIP IN AGRICULTURAL COMMODITIES THAT HAS ALREADY EXISTED BETWEEN EGYPT AND THE EC, AND AS THE COUNTERPART OF A PREFERENTIAL TRADE POLICY FROM WHICH MEDITERRANEAN COUNTRIES NOW BENEFIT. IN THE FORHTCOMING DELIBERATIONS BY THE COUNCIL OF AGRICULTURAL MINISTERS AND, AS IS LIKELY, BY THE COUNCIL OF FOREIGN MINISTERS, THE PROPOSEE EC-EGYPT COMMODITY SUPPLY AGREEMENT COULD CATALYZE A DEBATE IN DEPTH ON THE FUNDAMENTAL ROLE OF THE COMMON AGRICULTURAL POLICY (CAP). AS THE COMMUNITY'S AGRICULTURAL PRESS AS BEGUN TO NOTE, BILATERAL COMMODITY SUPPLY ARRANGEMENTS RAISE KEY ECONOMIC AND POLITICAL PROBLEMS FOR THE CAP. SHOULD THE CAP OPERATE SOLELY TO RESOLVE COMMUNITY AGRICULTURAL PROBLEMS AND ELINIATE SURPLUSES? SHOULD IT ALSO AIM AT AFFECTING THE TRADE AND PAYMENTS BALANCES OF THE NINE MEMBER STATES? SHOULD THE CAP BE AN INSTRUMENT OF GENERAL ECONOMIC POLICY TO ENCOMPASS OR EFFECT, FOR EXAMPLE, FOOD AID POLICY? THERE IS A NOTABLE LACK OF A CONSENSUS IN THE COMMISSION ITSELF ON THESE FUNDAMENTAL POLICY QUESTIONS.

7. MISSION IS AIRMAILING AND AIRPOUCHING TO AMEMBASSY CAIRO AND DEPARTMENTS OF STATE AND AGRICULTURE COPIES OF THE COMMISSION DOCUMENTS REFERRED TO ABOVE.MORRIS

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## Message Attributes

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